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IMPLICATIONS OF AN ECONOMIC RECESSION ON EUROPEAN DEFENSE

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IMPLICATIONS OF AN ECONOMIC RECESSION ON EUROPEAN DEFENSE

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ABSTRACT

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This decade is a period in time characterized by a financial crisis and economic recession. The impacts of fiscal constraints are causing governments to examine their roles in the defense and security market. Constrained, and even decreasing, defense budgets are forcing hard choices between social welfare programs and defense structure. The current issues are not new to Europe or the United States. However, the issues are forcing hard decisions that may not be in the best interest of the U.S. Europe is on the verge of no longer being a credible military partner of the U.S. The U.S. and NATO need to engage the European Union and forge a solution that leverages the military power of NATO and the civil reach of the Common Security and Defense Policy.

IMPLICATIONS OF AN ECONOMIC RECESSION ON EUROPEAN DEFENSE

This decade is a period in time characterized by a financial crisis and economic recession. The impacts of fiscal constraints are causing governments to examine their roles in the defense and security market. Constrained, and even decreasing, defense budgets are forcing hard choices between social welfare programs and defense structure. Traditionally, states protect national defense industries and extensively tie their existence to national sovereignty, security, employment, and technology protection.[1] The underlying protectionism provides "friction" in a budgeting process under extreme pressure. Innovation and affordability are driving governments to rethink how open and competitive their defense markets are.[2] The current issues are not new to Europe or the United States. However, the issues are forcing hard decisions that may not be in the best interest of the U.S.

Europe is on the verge of no longer being a credible military partner of the U.S. A new construct that equitably allocates security responsibility is required. The financial crisis in 2007-2008 and the subsequent recession warrant a review to the impact on the United States security system and military relationship with Europe. More importantly, the review needs to consider the future roles of the European Union (EU) and the North Atlantic Treaty Organization (NATO) and their ability to meet security requirements. Since the end of WWII, the largest share of the burden to defend Europe has fallen on the U.S. and the current path makes it appear the U.S. will continue to "punch above its weight." Unfortunately, the economic realities, political will, and future demographics of our European partners outline a path forward that can be summed up as status quo.

Background

During post-World War II and throughout the Cold War, defense industrial cooperation in Europe was characterized more as transatlantic rather than European transnational. Initially, the U.S. rearmed Europe but in time the Europeans began to develop work on the part of many European states. The Soviet threat provided a catalyst for states to prioritize defense spending. In the years after World War II the U.S. served as the main supplier to NATO. The arrangement provided a win-win for the U.S. and NATO states. The U.S. defense industry earned a profit and NATO states were able to rapidly rearm, maintain a high level of system interoperability and standardization, and take advantage of economic production rates.[3] The heavy reliance on U.S. defense goods actually influenced interoperability and standardization within NATO. In 1975 the British Secretary of State for Defense commented, "the forces of NATO would…achieve standardization of equipment far more quickly and more cost effectively than by any other method."[4] A prime example of transatlantic collaboration during this era is the Multiple Launch Rocket System (MLRS). The MLRS program included the United States, United Kingdom, France, Germany, and Italy. A common requirement and economies of scale allowed the program to field a capability to all participants, furthering standardization and interoperability. To this day, the participating countries still conduct colonel and flag level coordination reviews.

Total defense spending in Europe began to decrease in the 1980's and affected force structure, including some procurement programs.[5] At the end of the Cold War many European governments believed the threat was gone and chose to take the "peace dividend." The post Cold War period exhibited a reduction in defense spending trend that continues today. The threat is different today, but there is still a need for

military capacity in Europe. The environment today requires capabilities to protect against threats to the EU commercial sea-lanes, acts of piracy, civil conflict and violent destabilization of areas with migratory or refugee impacts, disruption of resource supply lines, terrorism, proliferation of weapons of mass destruction, and other physical threats.[6] New wars are characterized by insurgency, civil war, banditry, piracy, criminality, and terrorism.[7] The cyber and ballistic missile threats pose very formidable concerns not fully understood yet. But, the lack of a significant unified threat makes it unlikely the European states will increase defense spending.[8]

The Iraq War marked a brief upward trend in European defense spending from 2004 to 2007. The need for capabilities sooner rather than later contributed to a significant increase in transatlantic spending between the U.S. and Europe.[9] Both sides were rewarded in this period referred to as a defense industry “bull market” highlighted by United States sales to Europe and European sales to the United States.[10]

As early as 1992 it was apparent European defense industries had overcapacity. Overcapacity was attributed to national interests to maintain intranational competition, at the expense of economic inefficiency.[11] The U.S., NATO, and the EU are facing a common dilemma. All are struggling with the need to modernize defense forces under significant fiscal constraints.[12] There has always been a challenge for NATO allies to spend on defense and the current financial crisis will make the challenge even harder.[13]

> Industry in Europe is under enormous competitive pressure from the United States. With U.S. defense R&T investment running at around eight times that of Europe’s fragmented total and with substantial growth in the Pentagon’s vast procurement budget in a heavily protected national market, American industries are reaching new heights. Intra-European defense consolidation is critical because European governments and industry do not wish to see indigenous defense technology overtaken or dependence on foreign technologies become a necessity.[14]

Nearly everything about the defense market in Europe is tied back to national desires. The autarchic nature of the European defense industry ensures each major state has a contractor in each industrial sector.[15] Unfortunately, the industrial system reacted slowly to the economic reality of decreasing defense budgets. National will determines intent and goals. Even though Poland and the Baltic states worry about a Russian threat, Russia is no longer perceived as a threat worthy of concern for the majority of Europe. "The great question confronting Europe is whether some impending threat – an aggressive and expansionist hegemon, competition for resources, the internal stress of immigration, or violent extremism – will inspire them to raise a larger armed force to preserve their security."[16]

<u>Spending</u>

Seth Jones presents three options for states to procure weapons and systems: develop and produce domestically (autarky), purchase from abroad (foreign dependence), or cooperate in development and production (collaboration).[17] European states exhibit all three characteristics.

Spending is political in nature and often states engage in protectionism.[18] States use spending as a means to maintain an indigenous military industrial base. Shipyards and the construction of warships symbolize protectionism at its best. States and defense firms are forced to manage competition on the global market in order to make sales while protecting and controlling the intellectual investment in technology.[19] However, the lack of efficiency and coordination in the execution of defense funds leads to duplication in the European market.[20]

The financial crisis in 2007-2008 and subsequent recession in much of Europe is causing a renewed look, and potentially new dynamic, for defense spending.[21] No EU

state can operate solely in crisis situations with the current budget or human resources levels.[22]

Economic, social, and demographic pressures are forcing European members of NATO to take a “peace dividend” and spend less on defense. In 1985, European NATO members spent 3.42% of their combined GDP on defense. In 1995, the number declined to 2.17%. Incredibly, in 2006 the slide continued to1.77%.[23] The NATO goal of 2% of GDP spending on defense is rarely met by members. In 2006, five countries (United Kingdom, France, Germany, Italy, and Spain) accounted for over 80% of the European defense spending in the investment accounts.[24] Not only are European states spending less on defense, most of them are continuing to fund infrastructure and personnel while allowing the investment in equipment and research to decline. There is a European acceptance that the U.S., acting through NATO, carried the burden of defending Europe through the entire Cold War.[25] The current spending trend in Europe does not provide any evidence Europe is prepared to provide security on its own behalf.

Budget

The U.S. outspends the EU in all aspects of the defense budget. For perspective, European expenditures for defense investment accounts are 27% and Research and Development are 10% compared to the U.S. expenditures.[26] As defense spending becomes more of a discretionary budget item, much potential exists for investment accounts (procurement and research and development) and international operations to get targeted first because they are easier to reduce than non-discretionary accounts such as personnel and fixed infrastructure items.[27]

The EU members spend about 180 billion euro on defense a year, with about 22 percent going towards investment and acquisition accounts, but the investment budget

needs to be 30 percent in order to execute the required modernization efforts.[28] According to the European Defense Agency (EDA) data for 2006, personnel costs accounted for 55% of defense spending in Europe.[29] Current defense budgets cannot cover the gap. The required national investments are not going to happen.[30] Alternative methods are required in order to reduce duplicative efforts and increase effective spending.

The financial issues and debt crisis facing European states is causing many to include the defense budgets in their austerity measures. France, Germany, Spain, and Italy have all stated their defense budgets would include spending cuts.[31] Recently Britain revealed significant cuts to its military structure as it attempts to manage a shrinking defense budget. The British government intends to cut at least 8% of its defense budget over the next four years. Fortunately, the reduction is much less than an original anticipation of 10-20%.[32] Reductions in structure strike at the very center of the capabilities required. Over the next ten years Britain will reduce its fast-jet fleet from 12 squadrons to 6.[33] The army will drop to 95,500 soldiers, losing 40% of its tanks and 35% of its artillery while the Navy fleet is reduced from two future operational aircraft carriers to one.[34]

Larrabee uses a specific example, Germany, to highlight the impact of a reduced commitment to defense spending. He refers to Germany punching below its weight when acknowledging defense spending is at 1.27% of GDP and the fact that Germany refused to support the French-led peace operation in Chad with troops.[35]

It is highly unlikely that European states will provide more obligation authority and resources to their respective defense budgets. A different approach to raising the

necessary resources for defense improvements is to create a more efficient European defense.[36] The European defense budget is sufficient to conduct modernization efforts if the funds are spent in a more rational and coordinated way.[37] Nations must be willing to give up more sovereignty.

Demographic

Trends in demographics offers further concerning insight to Europe's ability to act as a security player. The trends today offer a prediction for the future of the populations in states and regions. More importantly though, trends provide insight to implications for future strategic postures.[38] In 2007 European states as a whole crossed a line in which the population stopped growing compared to deaths. The trend does not indicate any significant growth in population by the 2030s.[39] Without a population to sustain economic growth the first concern that comes to mind is the willingness of the Europeans to fund the cost of security in financial and military terms.[40]

The developed world is dealing with an aging problem. Analysts predict the number of elderly people in developed countries will double by the 2030s and Europe will have 59 elderly per 100 workers.[41] Fertility and mortality rates are dropping. The aging population is affecting the discretionary spending habits of many European countries. The average age for a European is predicted to be 45 years old by the year 2025.[42] This will have a strategic impact on Europeans to recruit and field armed forces. By the 2030s, immigrants to Europe from the Middle East and Southwest Asia will change European culture and cause Europe to be even less willing to deploy military power into areas of conflict.[43]

When reviewing the number of deployed European troops from 1995 to 2007 it appears as a sizable commitment. The European countries sustained deployments of

55,000 troops.[44] However, this number represents a small fraction of the overall number of armed forces. The EU, NATO, and NATO Partnership for Peace countries represented 2.65 million men and women in the armed forces in Europe in 2007.[45] However, only 2.69% were deployed. The NATO Istanbul Summit in 2004 identified deployability targets to sustain 8% of ground forces on operations and 40% in a deployable status, but only about 10% are deployable.[46] Another estimate puts the deployable force at 4%, without much capability to significantly increase the number.[47] According to the EDA analysis, only Georgia, the United Kingdom, and Ireland had more than 8% of their forces deployed in 2007.[48] The percentage of deployable forces in European armies continues to fall short of targets set by NATO. The failure is a key indicator that these states are not able to meet the goals.

Twenty-seven of the forty-seven nations providing troops to the International Security Assistance Force (ISAF) Afghanistan operate with caveats.[49] The majority of caveats significantly affect the Commander ISAF's ability to react to changing conditions. Most caveats limit operations outside defined areas of operation, the ability to conduct counter-narcotics operations, or the rules of engagements.[50] The real impact of geographically based caveats will be felt when the inevitable drawdown occurs and the limited forces are required to reposition to trouble areas.

Initiatives

The European defense policy and market resembles a patchwork of various national policies and markets.[51] A consolidated European defense industry could provide economies of scale and a unified market as a means to overcome the pressures of reduced defense budgets. Many different approaches exist that could aid the situations.

Collaboration between states could allow development and acquisition of capabilities that are too expensive under a national framework while increasing standardization and interoperability aspects.[52] Sharing and pooling of capabilities are forms of collaboration. Specialization, pooling and sharing of existing assets, and joint development of new capabilities provide avenues for more efficient spending of funds.[53]

Unfortunately, a potential side effect of collaboration is reduced effectiveness. Collaborative efforts do not always work out as planned. Often budget delays in one country impacts cost and schedule so much as to erode any potential savings. Requirements definition often results in national versions of the product. *Juste retour*, fair return work share agreements, can be counter-productive to realizing economic scale savings. Inefficiencies are easily identified when forces deploy to an operation. Logistics, a key functional area in peacetime and deployed operations, provides insight to the present state of affairs within the EU. During deployments there are as many logistical systems as there are national forces deployed due to the low level of standardization and interoperability.[54]

Europeans are beginning to realize this and a quote by Sarkozy at the 2007 Paris Air Show captures the essence of where collaboration has to go. “The principle of ‘fair return’ for every country, with the friction this generates between them, is a poison which hinders and weakens the implementation of European industrial, technological, and scientific programmes.”[55]

European defense collaboration is encouraged by strong political barriers to the U.S. market such as the Buy American Act of 1933, export and technology transfer

controls, and restrictive regulations concerning foreign investment in U.S. firms.[56] Import tariffs on both sides of the Atlantic are counter-productive and lead to protectionism.

Combining efforts is not a new thought. The EU foreign ministers created the European Defense Agency in 2004 with the intent to improve military capabilities. The overarching aim of the EDA is to improve cooperation on Research and Development, develop defense capabilities, foster armaments cooperation, and coordinate Europe wide acquisition efforts.[57] There is a belief by some European states that the EDA is an attempt to organize a European industrial defense base and prioritize potential contracts to European firms.[58] The EDA has the potential to serve as an integrating organization. Teixeira posits the central role of the EDA should be to serve as the intergovernmental mechanism to promote the harmonization of military needs in order to gain the economies of scale to sustain a defense industry among the EU.[59] The EDA has great potential to deliver a valuable service to Europe. Shrinking budgets will serve as a forcing function that will bring many states to understand the value and utility in a body of experts in the defense acquisition world. In time we should see the EDA become more empowered in strategic decision making.

The European Commission Directives on Defense Procurement and Transfers are new rules in the works that represent an effort to improve inefficiencies that exist in the European market. The policy’s goal is to reduce fragmented and redundant spending in European defense markets by increasing competition, innovation, and affordability.[60] The European Defence Technological and Industrial Base strategy describes a future industrial base that has to be more integrated, less duplicative, and more interdependent, with increased specialization.[61]

Nicole Gnesotto recognizes a sense of frustration regarding European defense stems from three handicaps. One of these is the fact that there is a mismatch between demand for security and the supply of resources. His assessment is that the supply of resources is stagnant, even shrinking.[62] Many Europeans believe their economic power is more than enough and they do not need the military instrument of power. His view is interesting because if true, it begs the question who will provide the security demanded if Europe does not have the supply. Maybe Europeans feel this way because they are content to have the U.S. wield the "hard power."

There is an underlying theme to the EU driven changes in the European defense market. While attempting to increase competition and reap the benefits, the policies may actually increase barriers for United States defense firms attempting to compete in the European market. Six thoughts characterize the downside. First, increased competition will decrease the use of sole source awards where U.S. companies have benefited. Secondly, policy preference for European sources will keep the U.S. win rate low. Thirdly, acquisition policy exclusions such as security of supply and security of information will exclude U.S. companies. Fourth, increasing European cooperative efforts means less opportunity for U.S. companies. Fifth, U.S. International Traffic in Arms Regulations (ITAR) is causing Europeans to "design out" components and subsystems heavily regulated. Finally, the large European defense companies can gain favor through incentives to the governments, gaining preference. Eventually, without significant U.S. action, the U.S. based defense companies will lose market share.[63] A forcing function may cause U.S. companies to look elsewhere, perhaps India, Japan, South Korea, or Australia as a market to replace the European market.

There are inhibitors for European based firms to enter the U.S. market as well. Institutional and cultural constraints, U.S. laws and policies, complexity of the U.S. procurement system, costs of entry, security concerns, Buy American legislation, ITAR, and foreign investment in U.S. firms policies make it difficult for companies without a presence to enter the market.[64] Inhibitors, barriers, or protectionism are a two way street however and it is not a surprise to see similar efforts and policies emerging from the European Union. The reality of the situation makes you contemplate how much of the defense market should be a "free market." There is a strong reason why Boeing should build the next U.S. Air Force tanker. Wide body jet manufacturing is part of the very core of our national commercial and defense industries. We should approach this question with the reality that the entire market is not meant to be a "free market."

The shortage of helicopter capability continues to be an issue for Europe. Even though there are over 1,700 helicopters in the inventory, little capability exists for deployment to operations. The shortcomings to availability are attributed to the lack of crew qualifications or technical inadequacies of the hardware to operate in the subject environment.[65] Two promising efforts highlight the ambition to reduce costs in this area. The EDA is expected to launch a training program at the European level called Helicopter Tactics Training Programme.[66] Consolidated training has the potential to reduce costs to participating nations. The EDA is also executing a bilateral program on behalf of France and Germany called the Future Transport Helicopter (2020+).[67] There is potential for more countries to participate, but certainly there is the prospect of savings even at this level.

The motivation to compete with the U.S. defense industry causes Europeans to create firms through mergers and acquisitions (M&A). Two highly visible firms are EADS and MBDA. EADS was created through the merger of France's Aerospatiale Matra, Spain's Construcciones Aeronauticas, and Germany's DaimlerChrysler Aerospace. Programs such as the Eurofighter, Eurocopter, and A400M transport put EADS in a very competitive stance against Boeing and Lockheed Martin. EADS and Boeing recently competed head to head on the U.S. Air Force tanker program. The initial outcome is that Boeing is the winner. However, the protest period is still open and there is no reason to believe EADS will not protest the award to Boeing. MBDA consolidated the European missile development and production capability and challenges Raytheon in the world market. Land vehicles and shipbuilding production represent the majority of the remaining merger and acquisition opportunities in the European defense industry.[68]

European firms have shown the ability to compete with U.S. industry. In two significant efforts, the A400M transport and the UK tanker refueler, EADS competed against Boeing and won.[69] The inefficiency concerns of collaboration highlighted earlier are affecting the A400M program. The transport program has major schedule delay issues and success is still not guaranteed.

Another initiative that has promise is the European Air Transport Fleet (EATF). In 2008, twelve European defense ministers signed a Declaration of Intent to establish the EATF in order to pool A400M and C130 air transport assets in order to reduce shortfalls.[70] The effort also includes the potential to combine training, logistics, and maintenance.

NATO believes role specialization, vice maintaining a full spectrum of capabilities, is a valid way for some countries to manage the financial pressure.[71] Role Specialization would mean a country would completely give up a capability and depend on others to provide it.[72] The Czech Republic chose to develop capabilities in a niche environment on behalf of the EU. The Czech Republic maintains a Chemical, Biological, Radiological, and Nuclear (CBRN) capability and serves as a role specialist.

As the British government plans to reduce its defense budget, they are looking for stronger military ties to the French. In November the two signed defense agreements to create a joint expeditionary force with 5,000 service members from each country, share the use of aircraft carriers, and improve nuclear weapons safety.[73] Other potential efficiencies include acquisitions and training.[74]The improved relationship represents significant efforts between the two largest defense budgets and militaries in Europe. Both countries realize spending on defense in Europe is going down. The alliance represents a way of getting more capability in a period of fiscal constraints. The agreement may shape the manner in which the two countries project force and compete in the defense industry in the future. The alliance briefs well in a period of mutual agreement on matters. The relationship makes you consider what would have happened during the Falklands conflict in 1982 if such an alliance between France and Britain was in existence at the time. How many French soldiers, fighter aircraft, or warships would have been committed to the fight? Clausewitz provides great insight to reliance on partners.

> One country may support another's cause, but will never take it so seriously as it takes its own. A moderately-sized force will be sent to its help; but if things go wrong the operation is pretty well written off, and one tries to withdrawal at the smallest possible cost.[75]

National caveats imposed by states and the potential reduced national autonomy could lead to security of supply issues.[76] An interesting dichotomy of interests exists when examining the concept of security of supply. The U.S. controls access and use of its satellite based global positioning system (GPS). The EU has chosen to invest in its own version of GPS, a project called Galileo. U.S. policy typically prioritizes security over economics, but the same is not true from an EU perspective. In the case of Galileo, China, India, and Israel have participated or lobbied to participate in the program.[77] In this age of financial crisis, Europeans are facing significant challenges to finance defense budgets and will look for opportunities to include partners the U.S. would not necessarily encourage, such as China.

Common Security and Defense Policy

The inability or reluctance of the European community to respond to security threats in the Balkans served as a catalyst to bring France and Britain together to sign the St. Malo Declaration in 1998.[78] In essence, the two countries agreed the European Union must have the capacity for autonomous action in the international arena. Critical to the desire for autonomy are credible military forces and the means to use them. St. Malo and the agreement between the two largest forces in Europe is referred to as the turning point for Europe and marks their desire to establish a European Defense Community.[79]

The European Security and Defense Policy was renamed the Common Security and Defense Policy (CSDP) at the Treaty of Lisbon in 2010. The EU executes policy affecting defense and the military through the CSDP. The EU desires consensus, political legitimacy of operations and the approval of the United Nations.[80] The civil-military aspect of the CSDP is the European conception for the challenges in this

century.[81] The EU civilian response capability consists of five priorities: police, rule of law, civilian administration, civil protection, and monitoring.[82]

The first execution of CSDP operations occurred in 2003. The efforts included police missions to Bosnia-Herzegovina in January and the deployment of 1500 French soldiers to the Democratic Republic of the Congo.[83] It is important to realize the EU has conducted 22 external military and or civilian operations.[84] However, operations are almost always in a peacekeeping role and not in major combat operations.

The Iraq War highlighted the need to conduct stability and reconstruction operations after the conclusion of combat operations focused on defeating the enemy. Nation building requires skills and capabilities in short supply. The CSDP civilian capabilities focused on police, election monitoring, and civil affairs complements a NATO not equipped to handle such tasks.[85]

The priority NATO is giving to Afghanistan means there is little chance of intervening somewhere else.[86] The economic realities may cause the EU to relook the desired intent of CSDP. Gnesotto proposes the CSDP continue to develop in the civilian environment solely and NATO act as the military intervention body.[87] EU resources could supplement the NATO mission. There is room for a U.S.-EU relationship. The CSDP has significant civilian capabilities necessary for nation building capacity. Operations in Iraq highlight the fact the U.S. has a shortage in civilian capabilities required during post combat operations. The current fiscally constrained environment iterates the economic sense for the EU to delegate more responsibility for managing international security to NATO.[88]

Javier Solana, in his preface to “What Ambitions for European Defence in 2020?,” highlights the fact there is a gap between ambitions and reality. In essence, the goal of a European Union that can provide civil-military security capabilities is not available today. Alvaro de Vasconcelos recognizes there is a joint capabilities deficit that is contrary to the CSDP, and that it has a negative impact on EU credibility and effectiveness.[89] He highlights the fact that the intent for a 60,000 man force deployable in 60 days and operational by 2003 is still not available. While there are some successes, the economics of the situation force the realization that Europeans must become more efficient at procuring and deploying equipment and personnel.[90] The current financial crisis is impacting the EU and causing the gap between what is expected of the CSDP and the means available to grow.[91] There is still skepticism about the EU’s efforts to serve as a security actor. The EU is struggling to find the resources (means) to meet the desired goal.[92] Thus, the EU lacks credibility.

The U.S. concern with CSDP is tied to the belief that NATO should be the security platform for Europe. The U.S. position is clear in the fact that it does not want CSDP to grow and undermine NATO.[93] It is in the best interest of the U.S. to have a strong European partner but the U.S. will use NATO as the primary means to discuss European security.[94] The U.S. is a member of NATO, which gives the U.S. more influence in European security. As the U.S. is not a member of the EU, the U.S. has less influence there. Larrabee concludes the EU does not have the military capacity to provide for the collective defense of its members.[95] The Balkans in the early and mid-1990’s is a perfect example.

During Operation Allied Force, U.S. attack aircraft and crews operated with a distinct advantage over their European allies. Accuracy and low collateral damage determined asset allocation for targeting during the operation. Allied forces were neither as well equipped with precision-guided munitions (PGMs) nor as well trained to use the more accurate devices, as were U.S. forces.[96] Only the French and British had the capability to deliver PGMs.[97] The U.S. executed over 60% of the 38,004 sorties flown during Operation Allied Force.[98] However, the U.S. delivered over 80% of munitions during the operation.[99] The U.S. attempted to influence NATO members to shape capabilities for the future in 1999. The Defense Capabilities Initiative (DCI) outlined 59 action items to identify modern contingencies and the need to increase operational capabilities. The action items were grouped in five major categories: mobility and deployability; sustainability and logistics; effective engagement; survivability; and interoperable communications including command and control.[100] Despite significant overhead to monitor progress, the lack of specificity allowed members to avoid the defense expenditures required to implement DCI. The lack of DCI progress led to the Prague Capabilities Commitment (PCC) in 2002.

The PCC looked at eight main areas: chemical, biological, radiological and nuclear defense; intelligence, surveillance and target acquisition; air-to-ground surveillance; deployable command, control, and communications; combat effectiveness; strategic air and sealift; air-to-air refueling; and deployable combat support and combat service support.[101] The PCC emphasized multinational, pooling, and role specialization solutions to over 400 specific items. The PCC did lead to some successes such as the Czech Republic CBRN defense battalion that obtained initial operational capability in

2003, Norway charters for roll-on-roll-off ships, European fighters capable of delivering precision guided munitions, and Spain leasing tanker aircraft. Even though there is progress against the PCC initiatives, true transparency into force goals remains an issue. “It is, however, difficult to escape the conclusion that institutional initiatives have generated flurries of bureaucratic activity, but achieved limited results. It must also be acknowledged that many of the capability gaps identified would take a long time to fill even under the best conditions.”[102]

There is an obvious relationship between the EU and NATO. However, nothing precludes the EU from partnering with India, China, the African Union, or Latin America.[103] It is obvious the best path for security and stability across Europe is a healthy Euro-Atlantic partnership. NATO-EU cooperation is essential to this relationship. Regardless of which organization provides the means, effectiveness is the most important measure.[104]

Conclusion

The current reductions in European defense budgets and force structure are a continuation of policies and intent that began with the “peace dividend” era at the end of the Cold War. An aging population in Europe and rising personnel costs in the military further exacerbate the challenge to budget for security. Collaborative efforts to gain economies of scale and financial efficiencies show promise. Unfortunately, many of the efforts began at the end of the Cold War and progress is slow. Reforming the national entities into a single, most efficient, European industrial base is a stretch goal. National protectionism will remain an underlying aspect of the system and inhibit the greatest efficiencies of the European defense industry.

There is a new variable in the equation now. The EU's desire for its own security apparatus represented by the CSDP civil-military capabilities offers an opportunity to relook the commitment to NATO. The civil nation-building capabilities resident in the CSDP correlate very well with the U.S. interagency shortcomings highlighted by operations in Iraq. The inability of the EU to stand up a true military arm under the CSDP is compounded even more so by the current financial difficulties. However, the strong EU desire for CSDP offers NATO an avenue to redefine its purpose.

The U.S. and NATO need to engage the EU and forge a solution that leverages the military power of NATO and the civil reach of CSDP. In a speech at a Strasbourg, France town hall in April 2009, President Obama made reference to friends and allies bearing their share of the burden and called for coordination.[105] NATO has many shortcomings, but it is the security agreement that provides the U.S. an alliance and influence in world security matters. In most endeavors the U.S. will need partners, whether from traditional alliances or new coalitions.[106]

> An alliance is like a chain. It is not made stronger by adding weak links to it. A great power like the United States gains no advantage and it loses prestige by offering, indeed peddling, its alliances to all and sundry. An alliance should be hard diplomatic currency, valuable and hard to get, and not inflationary paper from the mimeograph machine in the State Department.[107]

There is one concern for a future NATO-EU arrangement. Expectation management is paramount for any future NATO-EU engagement. Perhaps NATO needs to suppress desires and focus on those true issues that threaten European security. The current financial positions will force the rigorous review to determine what is affordable and appropriate. The European states will not make the investments in the

defense budgets that the U.S. desires, but that does not mean the U.S. has to continue carrying the burden.

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